

## The Netherlands: A mixed message on ODA

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### Key messages

- Official Development Assistance (ODA), which began to decline in 2010, has now reached an all-time low;
- In 2017 The Netherlands provided 0.6% of its GNI towards ODA. This represents the lowest performance for Dutch aid since 1974;
- Dutch GNI has seen its highest growth in a decade, growing at about 3% for the last 2 years;
- A new center-right government was installed in October 2017;
- The new Government has agreed to increase ODA investments with €1.8 billion in the coming 4 years and to correct ODA upwards<sup>1</sup>, given The Netherlands' strong economic growth;
- While this marks an important turning point, Dutch ODA performance is projected to continue to decline until 2022 with an expected drop to 0.54%;
- The aid decline is a result of a structural aid cut of €1 billion annually. This policy was adopted by the Rutte 2 Government in 2013. Indirect aid cuts have also had an impact;
- Aid diversion to in-donor refugee costs is a concern but has been brought to a halt;
- About half of the ODA allocated towards The Netherlands' private sector instrument, is made available to Dutch businesses

### **1. Overall ODA trend: The Dutch 2017 ODA budget at its lowest point since 1974**

Since 2010, Dutch ODA has sharply declined (Figure 1). This decline is the result of a deliberate policy agreement to cut ODA by two consecutive governments led by Prime Minister Mark Rutte, the so-called Ruttel and Rutte II Governments (2010-2013, 2013-2017). The most consequential cut to ODA, €1 billion annually, was implemented in 2013 by the Rutte II cabinet, a coalition of the Center-Right Liberal Party of PM Rutte and the Dutch Labor Party (PvdA).

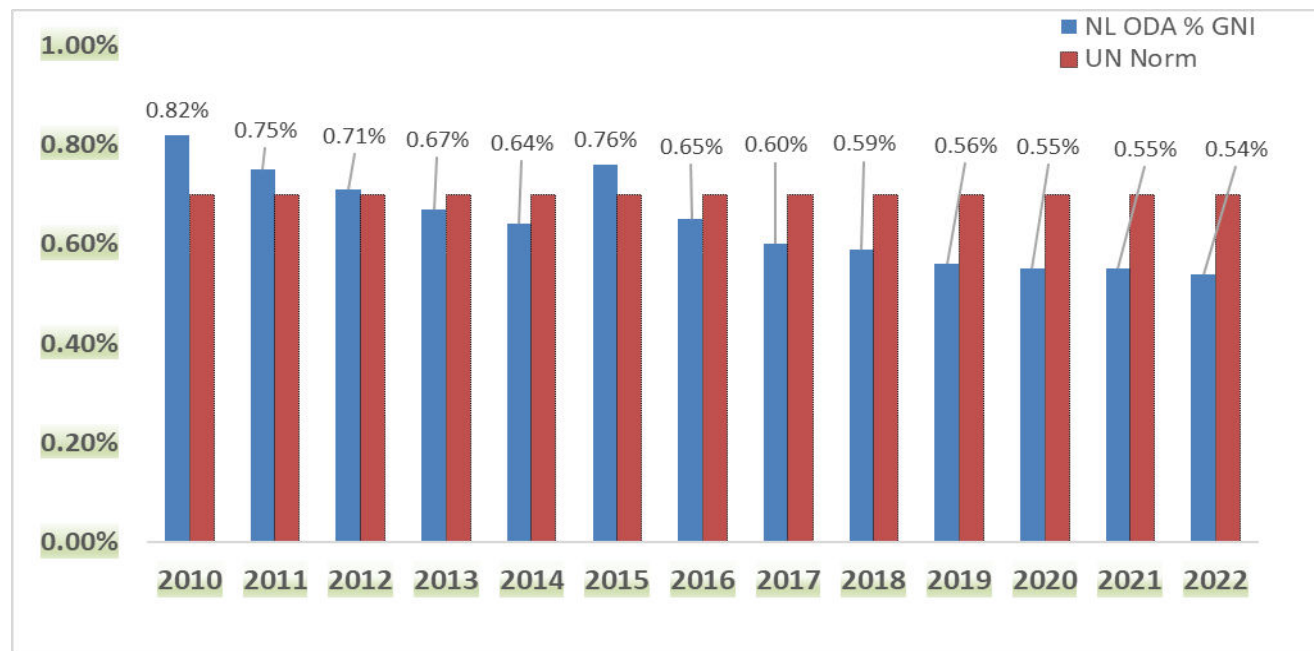
This policy change was underpinned by a lack of a political commitment to public development finance and development cooperation as a policy instrument. Under pressure from populist parties on the right, the Rutte 1 and 2 Governments promoted a view that development aid was no longer needed and private development finance and private sector development were better suited to help the poorest countries progress.<sup>2</sup> The policy yielded to development skeptics who insisted that effectiveness of Dutch aid and the development programming it finances could not be guaranteed and therefore it was time to scale down development cooperation.

Up until 2010, The Netherlands had a reputation as a generous and supportive donor, contributing 0.8% and more of its GNI to ODA. The rise of populists within and outside mainstream political parties changed this approach as they, persistently questioned the validity and effectiveness of Dutch overseas engagement. A decades-long tradition, one that enjoyed a consensus of support amongst policy makers, came to an end. As figure 1 shows, Dutch aid decline has been gradual until recently, masking the full

extent of the downward spiral. For example, although Dutch ODA dropped from 0.8% of GNI in 2010 to 0.67% of GNI in 2013, yet in 2013 The Netherlands remained close to the 0.7% target.

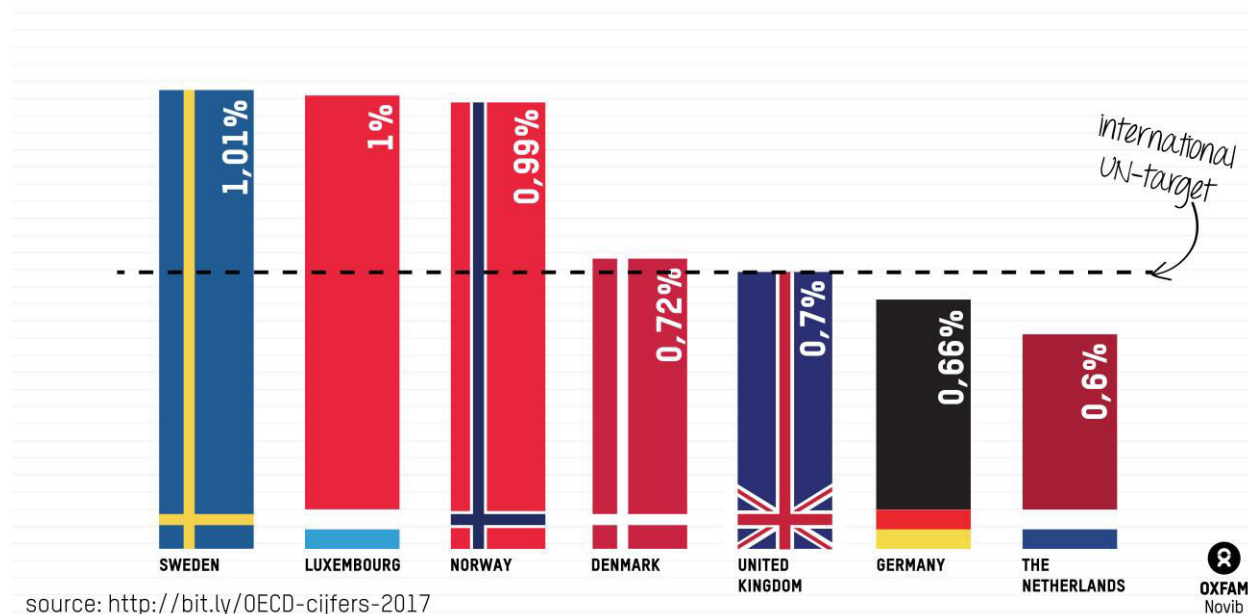
With the exception of 2015, when the Dutch aid budget rose above the 0.7% mark due to a stark increase in in-donor refugee costs, the aid budget declined consistently reaching an historic low point in 2017. For the first time since 1974, Dutch ODA dropped to 0.6% of its GNI being allocated to ODA.<sup>3</sup>

**Figure 1: ODA contribution by The Netherlands 2010-2022<sup>4</sup>**



As a result of this aid decline, The Netherlands is no longer among the top five OECD-DAC donors, and currently stands at 7<sup>th</sup> place among these donors (Figure 2). Its development programming has also faced severe pressure due to rising humanitarian needs. This pressure was most evident in 2015 with the so-called ‘migration crisis’. In keeping with ODA reporting rules, The Netherlands charged 100% of its costs for supporting refugees during their first year in the country. This resulted in an expenditure of about €1.2 billion to cover in-donor refugee costs, about €700 million higher than the amount originally budget. This unexpected over-expenditure, threatened the delivery of existing Dutch development commitments with bilateral, multilateral and CSO partners. At the same time, the structural aid cuts remained in place. The situation was so severe that the Dutch parliament adopted a motion requesting the government to protect existing development commitments from additional aid cuts. In response to this request, the Minister for Development Cooperation decided to “borrow” money from future ODA funds. In doing so, the Government created a substantial financial gap in the current aid budget that will take years to repair.

**Figure 2: The Netherlands' ranking among the top 7 OECD-DAC donors**



In addition to the direct budget cuts of €1 billion annually The Netherlands is also applying indirect cuts to its ODA budget. While these are smaller in volume, they have contributed an annual loss of about €400 million. These have taken several forms.

First, The Netherlands calculates its ODA contribution on the basis of a lower GNI than its actual economic performance. In 2010, the EU agreed to a common European System of Accounts (ESA), which harmonizes the way EU members calculate their GNI. On the basis of this new accounting framework, The Netherlands had to correct its GNI upwards. The resulting accounting adjustments were applied to all sectors of government and economic policy making. However, it was not applied to the calculation of ODA. In fact, the government uses its pre-2010 GNI, which is lower than its current GNI, to calculate its ODA contribution. The result is that the ODA budget is reduced by €264 million annually from what it should be, according to information provided through the budget and in response to parliamentary questions.<sup>5</sup>

A second indirect cut is the result of The Netherlands' Foreign Ministry<sup>6</sup> charging its aid budget to cover rising administrative costs from inflation and increases in staff salaries. Together these expenses have amount to €48.7 million annually.<sup>7</sup>

Through a combination of direct and indirect cuts, therefore, the Dutch ODA budget loses about €1.4 billion annually based on the 0.7% of GNI benchmark.

## 2. ODA forecast until 2022: downward trend despite investment by a new Government

In October 2017, a new Rutte III government was installed, led by Prime Minister Mark Rutte in his third term. It consists of four coalition partners: 1) the center-right liberal party of PM Rutte, VVD; 2) the Dutch Conservatives, the CDA; 3) the Centrist D66 party and 4) the progressive Christian party, CU.

In contrast to the two previous Rutte governments, the October 2017 coalition Government Agreement includes a clear commitment to development cooperation and ODA. Both the CU and the Centrist D66 party were keen to forge an in-principle agreement to end the downward ODA spiral. In a compromise with the other two parties, the new Government agreed to invest €1.8 billion in the ODA budget between 2018 and 2021. The new Government has also agreed to leave the annual structural aid cuts of €1.4 billion in place.<sup>8</sup> Under the leadership of the new Minister for Trade and Development Cooperation, Sigrid Kaag, the ODA budget has also been corrected for GNI growth several times. This scenario- a 'yes' and a 'no' to ODA- has not fully stopped the downward trend in Dutch aid, but it will have a softening effect.

Even with these policy measures, Dutch ODA is projected to reach another historic low point by 2022, with an expected ODA contribution of 0.54% of GNI (Figure 1).<sup>9</sup> This performance comes at the same time that the Dutch economy is growing at the highest rate since the 2008 economic crisis. with GNI rising by about 3.2% in 2017. According to the Dutch Bureau for Economic Policy Analysis, CBP, this trend will continue in 2018 and 2019, with a projected growth of 2.7% in 2018 and 2.9% in 2019.<sup>10</sup> The preliminary OECD Development Co-operation Report 2018, released in July this year, confirms the trend we have witnessed in The Netherlands: While DAC donor's economies are growing, this economic performance has not translated into ODA growth.<sup>11</sup>

The new development and trade policy presented by Minister Kaag in May 2018, may provide the government with more policy space to increase ODA. The new policy document includes a commitment to return to an ODA contribution of 0.7% by 2030. However, the timetable for the realization of the Sustainable Development Goals (SDGs) is the same year – 2030. The Netherlands' return to 0.7% in 2030 will be too late. The Minister and other coalition parties, along with some opposition parties, have signaled that would like to see this return happen as soon as possible. Advocating for this measure will be a priority for Oxfam Novib and our partners in the coming years.

### 3. Dutch aid diversion to in-donor refugee costs and the private sector

Pressure on the Dutch aid budget and development programming has been exacerbated in recent years by aid diversion to in-donor refugee costs and the Dutch private sector.

#### *In-donor refugee costs*

In line with OECD-DAC rules, The Netherlands is financing the first twelve months of sustenance, education and language courses for refugees -- the so-called in-donor refugee costs -- out of the aid budget. This did not pose a political problem when the costs were lower, accounting for some 7% of the aid budget. Since 2014, however, these costs have risen steadily as many people fleeing war have sought refuge in Europe. In 2015, The Netherlands welcomed a large number of refugees, almost 60,000 people.<sup>12</sup>As the government finances the first 12 months of substance for refugees seeking asylum in The Netherlands 100% out of the aid budget, development programming came under severe pressure. Approximately €1.2 billion was charged to The Netherlands' ODA fund, almost a quarter (23%) of its total allocation (Table 1). These funds were spent in The Netherlands, not overseas.

A change in the calculation method has meant that these costs dropped slightly in 2016. However, they rose again in 2017, making up about 17% of the ODA budget. In the coming years, in-donor refugee costs are expected to level off at around 10% of the aid budget.

**Table 1: In-donor refugee costs between 2013-2021: total and as percentage of The Netherlands' ODA budget<sup>13</sup>**

Year	2013	2014	2015	2016 <sup>[14]</sup>	2017	2018	2019
<i>In-donor refugee costs charged to the ODA budget (in million€)</i>	274.3	697.4	1.185	392	750.81	534.25	441.45
<i>% of the ODA budget</i>	7%	17%	23%	9%	23%	11%	11%

The impact of fully financing in-donor refugee costs to the ODA budget is a cause for great concern. Firstly, charging these costs to the development budget, even if allowed under DAC rules means people in the poorest countries are essentially footing the bill. The Netherlands is one of the largest economies in the Eurozone and worldwide. Surely, it can finance these costs out of the general budget or pool funding from other line ministries.

Secondly, as the in-donor refugee costs may vary considerably from one year to the next, as noted above. It is hard to predict what they will be going forward. This volatility has huge consequences for development program planning and security of funding levels to governments, CSOs, multilateral agencies and other development partners. It makes Dutch aid less predictable, a key pillar of aid

effectiveness. Also, for the Minister of Development Cooperation whose mandate it is to oversee the proper implementation of Dutch development policy financed by ODA, predictability is vital.

There is also a governance issue. In-donor refugee costs are made by the Ministry of Interior and charged to the ODA budget.<sup>15</sup> The Minister for Development Cooperation has no influence over the calculation or the accounting of these costs. Each year the Ministry of Development presents a projection of these costs for the coming 3-4 years, which is included in the annual presentation of the ODA budget. However, there can be a significant difference between the projected costs and the actual ones.

Given the difficulties associated with budgeting these costs, particularly the huge fluctuations, a funding gap in the budget can easily emerge in just one year. In 2015, the funding gap between budgeted in-donor refugee costs and spent in-donor refugee costs was more than €700 million.<sup>16</sup> Uncertainty about available development finance not only undermines the predictability of ODA for partner countries, but also ultimately poses huge challenges for the fulfillment of the Minister of Development Cooperation's mandate.

To address these issues, it is vital that refugee costs are limited in the aid budget, for example through establishing a ceiling. Ultimately, they must be phased out from the aid budget entirely and covered by appropriate domestic budget lines. Political parties in the Government and the opposition are paying close attention to the issue. Over the past two years, two motions have been tabled in the development committee of the Dutch parliament calling for the installment of a ceiling for these costs in the ODA budget.

### ***ODA for the Dutch private sector***

Under the Rutte II government, The Netherlands adopted the Agenda for Aid and Trade,<sup>17</sup> which merged the roles of the Minister of Development Cooperation and the Minister for Trade, responsible for the promotion of Dutch commercial interests abroad, into one. The new Government has continued this approach with the Dutch development policy, stipulating that success for Dutch businesses abroad is a policy goal, along with the reduction of poverty. Since 2010, the Dutch private sector instruments program, which is presented as part of the development cooperation budget, has risen from 4% in 2010 to about 11% in 2017.<sup>18</sup> The overall instrument consists of a multitude of smaller programs and funds, each implementing different policy objectives. About half of these ODA funds are made available as finances and subsidies for Dutch businesses.

In 2018, €406 million of ODA was budgeted for the private sector instruments budget line.<sup>19</sup> According to information provided by the Minister for Development Cooperation, about half of these funds, (€190 million) has been allocated to the Dutch private sector- both small and medium enterprises (SMEs) and multinationals.<sup>20</sup> This support includes loans, export credits, mezzanine finance and subsidies. A large part of these funds has been made available through blending of ODA with private finance. The Dutch Good Growth Fund (DGGF) is a prominent example of such a blending facility.

When the DGGF was set up in 2014, the argument for using ODA was that of “catalyzing” more development finance through a blending facility. The DGGF is a revolving fund with the idea that ODA loans disbursed to the private sector, including Dutch companies, would flow back in higher volumes

into the Fund. So far, these expectations have not been met. While the DGFF is costing about €140 million each year, reflows remain far below the levels of ODA investment with a projected income for 2018 of €500.000.<sup>21</sup> Four years after the establishment of the Fund, financial additionality is also yet to be demonstrated as the Minister for Development Cooperation confirmed in her response to questions by Parliament.<sup>22</sup> Despite this lack of evidence for development and financial additionality, in its new Development Policy (presented May 2018) the Government announced its intention to use blended finance to mobilize additional development finance.

#### **4. Conclusion**

Over the past few years, Dutch ODA policy has undergone significant changes. These have had an enormous impact on aid modalities. In 2017 ODA levels reached an historic low and aid diversion to the Dutch private sector and in-donor refugee costs are increasing the fragility of the aid budget. The new Government has turned around the anti-ODA trend by recommitting to the 0.7% target and announcing investments in the ODA budget. After years of aid cuts and a negative narrative around public development finance and development cooperation, this is a positive and welcome development. However, the downward spiral of Dutch aid performance continues, partly because direct and indirect budget cuts have not been reversed.

The current “yes and no” approach to ODA is a threat to Dutch development and foreign policy objectives as well as the reliability of The Netherlands as an international partner and responsible donor. The Minister and the Parliament must work together to return its ODA contributions to 0.7% of GNI within the coming five years, instead of waiting until 2030 as the policy currently stipulates. It must also and take concrete steps to limit and significantly reduce aid diversion.

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<sup>1</sup> The Netherlands calculates its 0.7% towards ODA contribution based on current GNI, then subtracts the structural cuts of 1,4 bn EUR of the figure based on 0.7%. If there is a variance then between projected ODA growth and budgeted ODA for example because the economy grew stronger than expected, the difference is added onto the aid budget. In doing so, the budget is “corrected upwards”

<sup>2</sup> See the 2013 development policy note of the Rutte II cabinet, “A world to gain: A new agenda for aid, trade and investment”, <https://www.government.nl/documents/letters/2013/04/05/global-dividends-a-new-agenda-for-aid-trade-and-investment>, Last viewed 21 August 2018 and the 2010 policy note and the development policy note of the Rutte I cabinet, “Basisbriefontwikkelingssamenwerking”, <https://zoek.officielebekendmakingen.nl/kst-32500-V-15.html>; Last viewed 21 August 2018

<sup>3</sup> In 1974, The Netherlands provided 0.6% of its GNI towards ODA. OECD (2018), Net ODA (indicator). doi: 10.1787/33346549-en (Accessed on 21 August 2018)

<sup>4</sup> For 2010-2017 figures see OECD (2018), Net ODA (indicator). doi: 10.1787/33346549-en (Accessed on 15 June 2018). 2019-2022 figures reflect the ODA current projection by the Dutch government as presented in the new development policy note “Investing in global prospects” <https://www.government.nl/documents/policy-notes/2018/05/18/investing-in-global-prospects>, Last viewed 21 August 2018

<sup>5</sup> Vaststelling van de begrotingsstaat van Buitenlandse Handel en Ontwikkelingssamenwerking (XVII) voor het jaar 2018, nr. 34775-XVII, Verslag houdende een lijst van vragen en antwoorden, Vastgesteld 7 november 2018, p.1,

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question 2, <https://www.tweedekamer.nl/downloads/document?id=4b3bc8ca-fb1a-419e-a3df-6dabcccb4851&title=Verslag%20houdende%20een%20lijst%20van%20vragen%20en%20antwoorden.pdf>, Last viewed 22 August 2018

<sup>6</sup> The Department of International Cooperation, DGIS, is part of the Ministry of Foreign Affairs. The Ministry is headed by two Ministers, the Minister of Foreign Trade and Development and the Minister of Foreign Affairs.

<sup>7</sup> Vaststelling van de begrotingsstaat van Buitenlandse Handel en Ontwikkelingssamenwerking (XVII) voor het jaar 2018, nr. 34775-XVII, Verslag houdende een lijst van vragen en antwoorden, Vastgesteld 7 november 2018, p.1, question 2, <https://www.tweedekamer.nl/downloads/document?id=4b3bc8ca-fb1a-419e-a3df-6dabcccb4851&title=Verslag%20houdende%20een%20lijst%20van%20vragen%20en%20antwoorden.pdf>, Last viewed 21 August 2018

<sup>8</sup> Coalition Government Agreement 2017/ Regeerakkoord 2017 “ Vertrouwen in de toekomst” , 10 October 2017, p. <https://www.rijksoverheid.nl/binaries/rijksoverheid/documenten/publicaties/2017/10/10/regeerakkoord-2017-vertrouwen-in-de-toekomst/Regeerakkoord+%27Vertrouwen+in+de+toekomst%27.pdf>, Last viewed 22 August 2018

<sup>9</sup> 2018 Dutch Development Policy “ Investing in Global Prospects”, <https://www.government.nl/documents/policy-notes/2018/05/18/investing-in-global-prospects>, p.100, Last viewed 22 August 2018

<sup>10</sup> Dutch Bureau of Economic Policy Analysis, CBP, Press Release of 19 June 2018, <https://www.cpb.nl/persbericht/groei-houdt-aan-politieke-risicos-toegenomen>

<sup>11</sup> OECD (2018), *Development Co-operation Report 2018: Joining Forces to Leave No One Behind*, OECD Publishing, Paris, <https://doi.org/10.1787/dcr-2018-en>, p.21

<sup>12</sup> The Netherlands Ministry of Immigration and Naturalization, Statistical Data, [https://ind.nl/en/Documents/AT\\_December\\_2015.pdf](https://ind.nl/en/Documents/AT_December_2015.pdf), Last viewed 22 August 2018

<sup>13</sup> Data for 2013-2017 as reported to OECD DAC, data for 2018-2021 as projected in the 2018 ODA budget, HGIS-nota 2018, Homogene Groep Internationale Samenwerking, <https://www.rijksoverheid.nl/binaries/rijksoverheid/documenten/begrotingen/2017/09/19/hgis---nota-homogene-groep-internationale-samenwerking-rijksbegroting-2018/HGIS-nota-2018.pdf>, p.49 , Last viewed 22 August 2018

[v] Lijst van vragen en antwoorden, Wijziging van de begrotingsstaat van Buitenlandse Handel en Ontwikkelingssamenwerking (XVII) voor het jaar 2017 (wijziging samenhangende met de Voorjaarsnota), beschikbaar via: <https://www.tweedekamer.nl/downloads/document?id=7039a47f-bfe8-4b59-bfe1-e587f85553b8&title=Verslag%20houdende%20een%20lijst%20van%20vragen%20en%20antwoorden.pdf>, blz.12, vraag 26

<sup>15</sup> Algemene Rekenkamer (Dutch Court of Auditors), Aandachtspunten bij de ontwerpbegroting 2018 (hoofdstuk XVII) van de minister voor Buitenlandse Handel en Ontwikkelingssamenwerking, 9 Oktober 2017, p. 9, <https://www.rekenkamer.nl/publicaties/kamerstukken/2017/10/10/aandachtspunten-bij-de-ontwerpbegroting-2018-hoofdstuk-xvii-van-de-minister-voor-buitenlandse-handel-en-ontwikkelingssamenwerking>, Last viewed 22 August 2018



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<sup>16</sup>Projected in-donor refugee costs for 2015 were € 296.95 million. See: Ministry of Foreign Affairs, HGIS-nota 2015 HomogeneGroepInternationaleSamenwerking, <https://www.rijksoverheid.nl/binaries/rijksoverheid/documenten/begrotingen/2014/09/16/hgis-nota-homogene-groep-internationale-samenwerking-rijksbegroting-2015/homogene-groep-internationale-samenwerking.pdf>, p. 33, Last accessed 22 August 2018, Actual in-donor refugee costs for 2015 was € 1.18 billion, See: Ministry of Foreign Affairs, HGIS-nota 2017 HomogeneGroepInternationaleSamenwerking, <https://www.rijksoverheid.nl/documenten/kamerstukken/2016/09/20/hgis-nota-2017>, p.36, Last accessed 22 August 2018

<sup>17</sup>See the 2013 development policy note of the Rutte II cabinet, “A world to gain: A new agenda for aid, trade and investment”, <https://www.government.nl/documents/letters/2013/04/05/global-dividends-a-new-agenda-for-aid-trade-and-investment>, Last viewed 21 August 2018

<sup>18</sup>Algemene Rekenkamer 2016: “Monitoring beleid voor ontwikkelingssamenwerking: het financieringskanaal bedrijfsleven. Stand van Zaken 2014”. Blz.12 & Oxfam Novib, BV Nederland in Ontwikkelingssamenwerking, Oxfam Novib, december 2016, blz. 9, <https://www.oxfamnovib.nl/files/rapporten/ZakenEerst-BVNederlandInOntwikkelingssamenwerking.pdf>

<sup>19</sup>Ministry of Foreign Affairs, HGIS-nota 2018 Homogene Groep Internationale Samenwerking, <https://www.rijksoverheid.nl/documenten/begrotingen/2017/09/19/hgis---nota-homogene-groep-internationale-samenwerking-rijksbegroting-2018>, Annex 4, Budget line 1 (Beleidsartikel 1: Duurzame Handel )

<sup>20</sup>Vaststelling van de begrotingsstaat van Buitenlandse Handel en Ontwikkelingssamenwerking (XVII) voor het jaar 2018, nr. 34775-XVII, Verslag houdende een lijst van vragen en antwoorden, Vastgesteld 7 november 2018, p.1, <https://www.tweedekamer.nl/downloads/document?id=4b3bc8ca-fb1a-419e-a3df-6dabcccb4851&title=Verslag%20houdende%20een%20lijst%20van%20vragen%20en%20antwoorden.pdf>, p. 14

<sup>21</sup>Ministry of Foreign Affairs, HGIS-nota 2018 HomogeneGroepInternationaleSamenwerking, <https://www.rijksoverheid.nl/documenten/begrotingen/2017/09/19/hgis---nota-homogene-groep-internationale-samenwerking-rijksbegroting-2018>, Annex 2b, p. 61, Last viewed 22 August 2018

<sup>22</sup>Vaststelling van de begrotingsstaat van Buitenlandse Handel en Ontwikkelingssamenwerking (XVII) voor het jaar 2018, nr. 34775-XVII, Verslag houdende een lijst van vragen en antwoorden, Vastgesteld 7 november 2018, p.1, <https://www.tweedekamer.nl/downloads/document?id=4b3bc8ca-fb1a-419e-a3df-6dabcccb4851&title=Verslag%20houdende%20een%20lijst%20van%20vragen%20en%20antwoorden.pdf>, p. 19, question 42